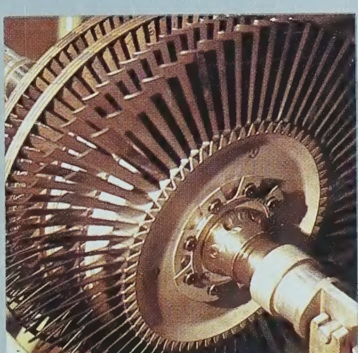
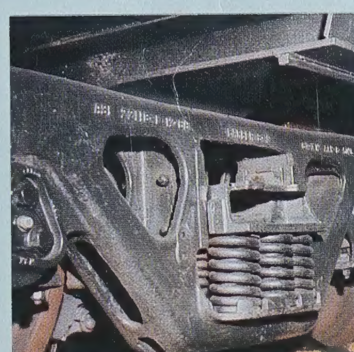
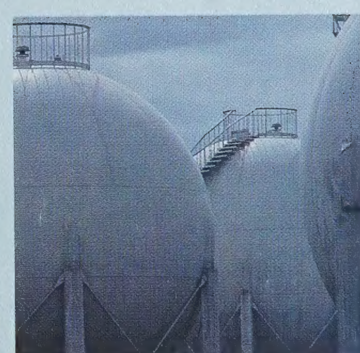






FEDERAL INDUSTRIES LTD. / FIFTY-FIRST ANNUAL REPORT / 1979

Federal Industries Ltd.

Federal Industries is a Canadian-controlled, diversified investment holding company, with Head Office located in Winnipeg, Manitoba. Through wholly-owned subsidiaries, it is engaged in the provision of truck, ocean and rail services to Western Canada, and in the servicing of other transportation systems through bulk product transshipment terminals and through aerospace product manufacturing and distribution. Current operations are grouped into three divisions: Aerospace, Terminals and Transport. Annual sales in excess of $136,000,000 and assets of $192,000,000 rank Federal Industries among the 125 largest corporations doing business in Canada. Ninety-seven percent of the 3,528,900 shares are owned by residents of Canada and are traded on the Toronto and Winnipeg Stock Exchanges.

Annual Meeting

The Annual and Special General Meeting of the Shareholders will be held at the Winnipeg Inn, 2 Lombard Place, Winnipeg, Manitoba, on Thursday, May 1, 1980 at 10:00 a.m.

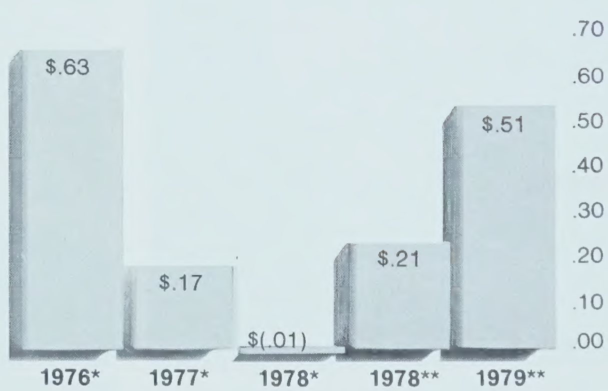
Financial Highlights

	December 1979 12 Months ($ Million)	December 1978 12 Months ($ Million)
Sales	136.4	123.2
Earnings before interest, taxes and extraordinary items	13.7	7.5
Interest Charges	9.8	5.0
Net Income before Extraordinary Items	1.8	.7
Net Income (Loss) after Extraordinary Items	1.8	(.8)
Working Capital	14.6	10.7
Earnings per Share before Extraordinary Items	$ .51	$ .21
Earnings per Share after Extraordinary Items	$ .51	$ (.23)
Equity per Class A and Class B share	$12.40	$12.17

SALES FROM OPERATIONS ($ MILLION)

*12 Months ended March 31
**12 Months ended December 31

EARNINGS PER SHARE BEFORE EXTRAORDINARY ITEMS



Report to Shareholders

1979 RESULTS

The 1979 results of operations before extraordinary items improved over the comparable period to $1,789,000 or 51¢ per share from $714,000 or 21¢ per share in 1978. After extraordinary items, 1979 earnings were unchanged, compared to a loss of $813,000 or 23¢ per share for the prior year.

This improvement in earnings was accomplished despite the dramatic change in bank prime interest rates and increasing weakness of the Canadian dollar, which factors together depressed 1979 profits by more than $2.8 million. Interest charges on floating rate obligations of the Company increased by $1.6 million or 60% while related debt rose less than 2%. U.S. dollar exchange losses totalled more than $1.2 million, up by 20% from 1978.

Sales rose to $136,352,000 from $123,210,000 in the previous twelve months. Significantly increased activity in the Aerospace Division and a full year of operations at Thunder Bay Terminals offset a decline in sales of the Transport Division caused by the loss of a major customer.

OPERATIONS

Federal Industries Ltd. is divided into three operating divisions: Aerospace, represented by Standard Aero Limited of Winnipeg; Terminals, comprised of Neptune Bulk Terminals Ltd. of Vancouver and Thunder Bay Terminals Ltd. of Thunder Bay; and Transport, provided by The White Pass and Yukon Corporation Limited of Whitehorse, Yukon Territory.

John F. Fraser,
President

Aerospace Division

The Aerospace Division achieved a 17% increase in sales for 1979 over the comparable period in 1978, although operational earnings before interest and taxes remained flat. A number of factors accounted for this pause in an otherwise consistent record of increasing profits, and related primarily to a change in mix of Standard Aero's sales. Forecasts for 1980 and actual results to date indicate that the demand for the Division's products and services will continue to increase, and the company has readjusted its sales markets to assure a satisfactory resumption of earnings growth.

The European branch, centred in London, England, contributed outstanding sales and earnings in 1979, confirming earlier expectations that this operation would provide a major expansion market.

Market outlook for the industry continues to be bright. Increased natural resource activity, the impact of "offset" work from foreign aerospace companies selling aircraft and parts to Canada, and the impending purchase by the Armed Forces of fighter aircraft should all ensure that the Division will continue to figure prominently in the earnings of your Company. We are committed to take full advantage of the present favourable markets both through internal growth and by future acquisition of related companies.

Stewart A. Searle,
Chairman of the Board

Terminals Division

The Terminals Division enjoyed record sales and earnings, with most commodity groups performing strongly throughout the period. Dollar volume increased by 86% over the comparable twelve months, due primarily to the completion of a full year's operations at Thunder Bay Terminals in 1979.

New management at Neptune Bulk Terminals was hindered by a number of factors beyond the control of the company. As reported last year, a serious industrial accident shut down a major piece of coal-handling equipment, and regular operations were not resumed until April, 1979. The additional costs of maintaining a temporary handling system were significant, depressing earnings during the first quarter of the year. In May, 1979, a ship collided with the company's potash loading system, resulting in a partial loss of profits for nearly three months. On October 12th, a vessel damaged the railway bridge to Vancouver's North Shore, substantially reducing access and volumes for the last quarter.

The coal-handling facility at Thunder Bay successfully completed its first full year of operations and contributed significantly to both sales and earnings. Expansion of the terminal is under way, with the construction of a $15,000,000 facility for the delivery of approximately 1,000,000 tons of lignite coal annually to an adjacent Ontario Hydro generating station. Completion is expected by the year end, and a substantial growth in throughput should be achieved during our 1981 fiscal year.

Transport Division

The Transport Division has been undergoing a complete realignment of its operations to adjust to the economic realities of providing a transportation

service in the unique and difficult environment of the Canadian northwest. Relocation of operating headquarters to Whitehorse, Yukon, strengthening of management at all levels and permanent reductions in overhead exceeding $2,000,000 annually, all of which began in 1978, were achieved during the current year. In addition, changes to operating practices, improved labour-management relations, aggressive marketing efforts and close cost control enabled the Division to show a substantial favourable variance to budget. The Division reassessed its pricing and rate policies, leading to significant increases in general freight tariffs and petroleum product prices, all of which contributed positively to results in 1979. The company and its major customer agreed during the year to a temporary surcharge on transportation tariffs, and as a result approximately $1,100,000 was added to gross revenues for 1979.

The greatest difficulty facing the Division now and in the future is its uneconomic rail link between Skagway, Alaska and Whitehorse, Yukon. The 110-mile, narrow gauge railway experienced losses in 1979 of over $3,500,000, reflecting both a decline in overall volumes and inadequate rates for major commodities hauled. The concern of your Company's management for the viability of this operation has been shared by government and industry leaders in the Yukon, and led during the year to the establishment of an inquiry by the Canadian Transport Commission into the affairs and financial health of the railway. This report was released in February, 1980, and recommended that Government provide interest free funding for long term capital requirements. It further stated that users of the rail are both financially competent and legally required to pay a compensatory tariff for the services which they enjoy. As a consequence, the Division has determined and filed rates with the Canadian Transport Commission which are compensatory, the payment of which would reduce losses currently being experienced. The provision of needed capital assets would allow the company to reduce its operating costs and increase its efficiency.

As reported last year, the loss of a major customer seriously impacted the company's transportation system, and realignment of activity and equipment to adjust to these new circumstances has been substantial and expensive. Most of these readjustments have been effected in 1979. However, the overall economic picture for the Yukon in the immediate future is weak, and the establishment of higher weight limits on competing truck routes will continue to erode a portion of the Division's business.

Although substantial improvements were made in 1979 and will continue into 1980, the earnings outlook is still not satisfactory, and continuing alterations will be necessary in the operations of this Division in order to complete the turnaround. We now have in place experienced and committed management and are determined to take all actions necessary to improve the operating results in the Transport Division.

BOARD OF DIRECTORS

Messrs. R. N. Hambro, A. S. Leach and J. D. Scott have indicated to the Board of Directors that they will not stand for re-election this year. Mr. Hambro, a Director of Hambros Bank Limited, and Mr. Scott, President of Yukon River Industries Ltd., have served on the Board since 1976, and we are grateful for the counsel and service provided to the Company by these gentlemen.

Your Directors would like to pay special tribute to Mr. A. Searle Leach, O.C., who will retire from active service with your Company on May 1, 1980. Mr. Leach joined Searle Grain Company, Limited in 1933, assuming the position of Chairman of the Board in 1965. Following the amalgamation of Searle Grain and Federal Grain, he was elected Chairman of the Board of the new Federal Grain Limited in 1966. In May, 1978, following a reorganization of the Executive, Mr. Leach became Honorary Chairman of the Board of Federal Industries Ltd. During his long tenure as a Director and Officer of your Company, Mr. Leach provided wise counsel and leadership.

On April 1, 1980, your Board of Directors approved a change in the by-laws of the Company, decreasing the number of directors to ten from twelve, providing for the resignations of the aforementioned directors and the nomination of Mr. J. S. Pelton, Vice-President, Finance of the Company.

FUTURE DIRECTION

As an investment holding company, Federal Industries has a dual role: to optimize performance of present investments, and to position the Company for success in future opportunities. The efforts of management during 1979 have been directed towards the former, and are consistent with the commitment given in our 1978 annual report "to encourage, support and expand our winners; to improve our average performers; and to fix or dispose of our losers quickly."

We believe that our actions and initiatives in 1979 have provided the momentum necessary to resolve the substantial and serious issues that have confronted the Company and in their resolution to place Federal Industries, both financially and managerially, in the strongest possible position to conduct an aggressive and profitable growth phase.

Our shareholders may expect to see expansion of the Aerospace Division, continued profitability in the Terminals Division, and continuing improvement in the operating results of the Transport Division. External growth, by acquisition or merger, will take a greater proportion of management's time and efforts. The financial stability provided by the present base of operations will enable the Company to demonstrate its true potential, justifying the patient support given over the years by the Company's many shareholders.

On behalf of the Board of Directors.

SA Searle

Stewart A. Searle, Chairman

J. Fraser

John F. Fraser, President

April 1, 1980

Financial Review

EARNINGS

As noted in our last Annual Report of December 31, 1978, the Company changed its year end from March 31st to December 31st resulting in a nine-months' reporting period. In order to improve the comparability of the Statement of Earnings and Statement of Changes in Financial Position, 1978 results have been restated to show a full twelve months to December 31, 1978.

Earnings for 1979 before extraordinary items improved to $1,789,000 or 51¢ per share from $714,000 or 21¢ per share in the previous year. This improvement resulted primarily from the cessation of operations of unprofitable subsidiaries and a full year's operations at Thunder Bay Terminals Ltd.

There were no extraordinary items recorded in the accounts for 1979. In 1978, an extraordinary loss of $1,527,000 or 44¢ per share was recorded, consisting of a write-off of goodwill of $2,596,000, provision for losses on discontinuance of an operation of $441,000, and an income item of $1,511,000 representing utilization of tax loss carryovers.

During the period, 40,000 Class 'A' shares were issued under a stock purchase plan, and all per share amounts reflect this issuance on the basis of daily average shares outstanding.

Earnings by major Divisions of your Company are described in the Review of Operations following the consolidated financial statements.

John S. Pelton,
Vice-President, Finance

DIVESTITURES

In October, 1979, White Pass completed the sale of trucking authorities owned by its subsidiary, Pioneer Alaska Express, and began procedures to wind-up the company. In addition, another White Pass company engaged in the sales and service of heavy equipment was closed and the assets liquidated during the year.

The effect of these divested subsidiaries on the 1978 earnings of the Company has been segregated in the Statement of Earnings under the caption Loss from Discontinued Operations and in Extraordinary Items. The Consolidated Historical Summary following the Notes to Consolidated Financial Statements also reflects retroactively the adjustments required to segregate discontinued operations.

Management is committed to a policy of continuous review of all of its investments, and those not measuring up to appropriate, predetermined criteria will be redeployed or divested.

INTEREST COSTS

With the exception of Thunder Bay Terminals' bonds, most of your Company's debt bears interest related to the prime bank rate, and consequently interest costs reflected in earnings have risen dramatically over the last year. As noted in the Balance Sheet section, interest on Thunder Bay obligations is covered by an all-events contractual relationship and should be excluded in assessing interest coverage and other liquidity tests. Interest expense, excluding the Terminal, amounted to $4.3 million, compared to $2.6 million in 1978, an increase of 63%. Since total non-Thunder Bay Terminals debt rose only 1.5%, this negative effect on earnings is highlighted further.

The present unsettled nature of capital markets is no comfort to anyone in forecasting reliably the trend of interest costs and availability of debt capital. Accordingly, the issue of liquidity is assuming an even greater importance, and all measures at the disposal of management are being used to reduce the leverage exposure in current operations.

FOREIGN EXCHANGE FLUCTUATIONS

Foreign exchange fluctuations have caused significant operating losses in The White Pass and Yukon Corporation Limited. Most of the costs of running that company's railway between Skagway, Alaska and Whitehorse, Yukon are incurred in U.S. dollars, while the revenues derived from the service have been payable historically in Canadian currency. The resulting imbalance has depressed that company's profits by over $1.2 million in the current period and by nearly $1 million in 1978. To compensate, adjustments have been made to freight rates on non-contractual commodities, and revisions are being sought to tariffs on contracted volume.

INCOME TAXES

Because Federal Industries is comprised of a group of companies, each with its particular tax characteristics, the consolidated rate of tax may differ greatly from period to period. This is particularly true when one or more companies incur losses while others remain profitable, as was the case in the year ended March, 1978 when the total tax rate was 82%. The rate of tax in 1979 on continuing operations reflects a fairly normal relationship at 44.9% compared to 43.2% for the previous year.

In part to mitigate the effect noted above, White Pass formed a holding company, White Pass Transportation Inc., to acquire the share of its U.S. operations, enabling the company to file joint tax returns. Further, a number of the Canadian subsidiaries of White Pass were amalgamated to form White Pass Transportation Limited. These actions will reduce the variability of tax rates, but until Revenue Canada allows the filing of consolidated tax returns, elimination of volatility will not be possible.

BALANCE SHEET

Working capital increased by approximately $4 million during the year, primarily as a result of the completion of a major reorganization of the Company's debt structure. As part of an agreement with the Bank of Montreal, a portion of existing bank current debt was converted into term loans, with periods of repayment up to twelve years, and the amortization periods of existing term loans were extended. This restructuring has enabled the Company to finance its medium-term operational plans without difficulty.

Long term debt increased by $12.5 million to $95 million, representing an apparent substantial increase both in dollars and in the debt-to-equity ratio. However, most of the funded obligations of the Company and its increase comprise bonds and other debt issued by Thunder Bay Terminals Ltd. ($71 million in 1979 and $61.7 million in 1978), the security for which is limited to Terminal assets and proceeds of a long term contract with Ontario Hydro. This contract provides for the payment of both principal and interest in all events; therefore, the debt, sometimes called project financing, should not be considered in assessing the propriety of the Company's long term debt-to-equity relationship. If the Terminal debt were excluded, this key ratio would be approximately .44 to 1 at year end, compared to .39 to 1 in 1978, the change reflecting the reclassification of loans referred to above. If total debt to equity were considered, no change would be registered.

CAPITAL EXPENDITURES AND DEPRECIATION

Total capital expenditures exceeded $13 million, of which $10.3 million represented costs of construction at Thunder Bay Terminals Ltd. Excluding the Terminal, capital expenditures declined by approximately $2 million to $3.1 million, reflecting a policy of restraint throughout the organization.

An increase in depreciation to $6.1 million from $4.9 million in 1978 arose primarily because of the beginning of operations at Thunder Bay Terminals. After excluding Terminal depreciation, a decline of almost $1 million was recorded, reflecting lower capital expenditures during 1979 and the disposal of capital assets in White Pass.

SUMMARY

The financial strength of the Company improved significantly in the last year, both on the balance sheet and in earnings. As noted last year, the maintenance of liquidity and avoidance of excessive leverage are of vital importance in assuring the financial stability of the organization. Recent events have indicated the inability of governments' fiscal and monetary policies to deal with the underlying causes of inflation, and have placed on business an increased burden to structure itself for survival and success. Management is confident that its stated practice of giving preference to investments which employ lesser amounts of assets and produce more sales per dollar invested, with the consequent reduction of leverage, is appropriate to these economic times. The solid earnings base represented by the Aerospace and Terminals Division and an aggressive expansion posture should assure the Company's shareholders of long-term growth in share values and dividends.

John S. Pelton
Vice-President, Finance

Federal Industries Ltd. and its Subsidiary Companies

Consolidated Statement of Earnings

For the year ended December 31, 1979

	1979	1978 (Unaudited) (Note 2)
Sales and services (Note 12)	**$136,351,852**	$123,210,272
Cost of sales and operating expenses (Note 13)	**116,410,447**	109,462,625
Depreciation and amortization	**6,134,919**	4,842,400
Amortization of goodwill	**72,000**	90,000
Interest on long term debt	**8,393,434**	3,511,827
Other interest expense	**1,424,714**	1,452,800
	132,435,514	119,359,652
Earnings from continuing operations	**3,916,338**	3,850,620
Loss from discontinued operations, after depreciation of $269,530 in 1978	—	(1,291,277)
Earnings before income taxes and extraordinary items	**3,916,338**	2,559,343
Provision for income taxes		
Current	**661,780**	1,354,601
Deferred	**1,094,802**	119,899
	1,756,582	1,474,500
Earnings before extraordinary items	**2,159,756**	1,084,843
Extraordinary items (Note 14)	—	(1,526,781)
Net earnings (loss)	**2,159,756**	(441,938)
Earnings allocated to minority shareholders	**371,200**	371,200
Net earnings (loss) for the year	**$ 1,788,556**	$ (813,138)
Net earnings (loss) per common share		
Before extraordinary items	**$.51**	$.21
Extraordinary items	—	(.44)
Including extraordinary items	**$.51**	($.23)

See accompanying notes to financial statements.

Federal Industries Ltd. and its Subsidiary Companies

Consolidated Statement of Retained Earnings

For the year ended December 31, 1979

	1979	1978 (Unaudited) (Note 2)
Balance, beginning of year		
As previously reported	**$27,810,037**	$28,738,769
Adjustment of prior years' earnings (Note 11)	**—**	577,186
As restated	**27,810,037**	29,315,955
Net earnings (loss) for the year	**1,788,556**	(813,138)
	29,598,593	28,502,817
Dividends—Class A shares	**447,217**	537,499
Dividends—Class B shares	**258,563**	155,281
	705,780	692,780
Balance, end of year	**$28,892,813**	$27,810,037

See accompanying notes to financial statements.

Auditors' Report

Touche Ross & Co.
213 Notre Dame Avenue
Winnipeg, Manitoba R3B 1N3
(204) 942-0051

To the Shareholders,
Federal Industries Ltd.

We have examined the consolidated balance sheet of Federal Industries Ltd. and its subsidiary companies as at December 31, 1979 and the statements of retained earnings, earnings and changes in financial position for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

In our opinion, these consolidated financial statements present fairly the financial position of the companies as at December 31, 1979 and the results of their operations and the changes in their financial position for the year then ended in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Touche Ross & Co.

Chartered Accountants

Winnipeg, Manitoba
April 1, 1980

Federal Industries Ltd. and its Subsidiary Companies

Consolidated Balance Sheet

As at December 31, 1979

ASSETS	1979	1978
Current		
Cash	**$ 24,662**	$ 96,247
Short term investments, at cost	—	1,674,099
Accounts receivable	**22,312,923**	17,646,766
Income taxes recoverable	—	783,905
Inventories (Note 3)	**25,360,847**	26,372,161
Prepaid expenses	**1,498,723**	798,193
Insurance claims recoverable (Note 4)	**5,367,487**	2,673,124
Current portion of long term receivable (Note 6)	**1,925,000**	—
Total current assets	**56,489,642**	50,044,495
Fixed (Note 5)		
Property, plant and equipment, at cost	**152,046,467**	98,388,649
Accumulated depreciation	**44,714,297**	40,297,826
	107,332,170	58,090,823
Terminal facility under construction (Note 6)	**11,759,490**	54,482,604
	119,091,660	112,573,427
Other		
Unexpended construction funds (Note 6)	**7,596,000**	6,978,901
Long term receivable (Note 6)	**1,423,100**	—
Other investments, at cost (Note 7)	**4,402,546**	3,734,396
Deferred charges	**515,194**	363,702
Goodwill, at cost less amounts amortized	**2,198,259**	2,270,259
	16,135,099	13,347,258
	$191,716,401	$175,965,180

See accompanying notes to financial statements.

On behalf of the Board:

S.A. Searle

Director

Director

LIABILITIES	1979	1978
Current		
Bank indebtedness, secured	$ 15,440,140	$16,937,859
Accounts payable and accrued liabilities	20,996,065	18,998,480
Dividends	176,445	—
Income taxes payable	742,384	—
Current portion of long term debt	4,525,232	3,450,100
Total current liabilities	**41,880,266**	39,386,439
Long term (Note 8)	**95,042,711**	82,541,803
Deferred income taxes	**5,524,561**	6,090,851
Minority interest (Note 9)	**5,500,000**	5,500,000
Total liabilities	**147,947,538**	133,519,093

SHAREHOLDERS' EQUITY		
Share capital		
Common shares (Note 10)	**14,876,050**	14,636,050
Retained earnings	**28,892,813**	27,810,037
Total shareholders' equity	**43,768,863**	42,446,087
	$191,716,401	$175,965,180

Federal Industries Ltd. and its Subsidiary Companies

Consolidated Statement of Changes in Financial Position

For the year ended December 31, 1979

	1979	1978 (Unaudited) (Note 2)
Source of funds		
Operations		
Net earnings (loss) for the year	**$ 1,788,556**	$ (813,138)
Add Depreciation and amortization	**6,134,919**	4,842,400
Amortization of goodwill	**72,000**	90,000
Deferred income taxes	**1,094,802**	119,899
Accrued revenue in respect of deferred income taxes (Note 6)	**(1,700,000)**	—
Extraordinary items	**—**	1,526,781
Earnings allocated to minority shareholders	**371,200**	371,200
Loss (gain) on sale of fixed assets	**(19,197)**	208,622
Loss from discontinued operations	**—**	1,291,277
Funds provided by continuing operations	**7,742,280**	7,637,041
Issue of first mortgage bonds 9⅝% (Note 6)	**14,496,000**	32,000,000
Additional long term debt financing	**3,964,800**	5,531,000
Proceeds on sale of fixed assets	**800,411**	435,348
Issue of shares (Note 10)	**240,000**	268,750
Reduction in income taxes (Note 14)	**—**	1,510,546
Disposal of assets of subsidiary company, net of liabilities assumed of $904,900	**—**	2,462,500
Adjustment of prior years' earnings, excluding deferred income taxes of $182,600 (Note 11)	**—**	405,786
	$27,243,491	$50,250,971
Application of funds		
Purchase of fixed assets	**$ 3,056,488**	$ 5,348,395
Terminal facility under construction	**10,296,470**	24,777,741
Unexpended construction funds	**617,099**	4,945,981
Increase in long term receivable, net of deferred income tax component of $1,700,000 (Note 6)	**1,423,100**	—
Other investments (Note 7)	**668,142**	3,369,396
Deferred charges	**194,000**	—
Decrease in long term debt	**5,959,892**	3,537,175
Dividends	**705,780**	692,780
Dividends paid by subsidiary company to minority shareholders	**371,200**	371,200
Loss from discontinued operations, before depreciation	**—**	1,021,747
Provision for loss on discontinued operations (Note 14)	**—**	580,000
	23,292,171	44,644,415
Increase in working capital	**3,951,320**	5,606,556
	$ 27,243,491	$50,250,971
Working capital, end of year	**$14,609,376**	$10,658,056

See accompanying notes to financial statements.

Notes to Consolidated Financial Statements

For the year ended December 31, 1979

1. Summary of significant accounting policies

(a) **Principles of consolidation**

The consolidated financial statements include the accounts of the Company and all subsidiaries. The names of the subsidiaries, which are all wholly owned, are as follows:

Neptune Bulk Terminals Ltd.
Standard Aero Limited
The White Pass and Yukon Corporation Limited
Thunder Bay Terminals Ltd.

All material inter-company balances, transactions and profits have been eliminated.

(b) **Foreign currency translation**

The accounts of certain subsidiaries are maintained in United States dollars. These accounts have been translated into Canadian dollars as follows: current assets and current liabilities at exchange rates prevailing at the end of the year; fixed assets, depreciation and long term debt substantially on the basis of rates prevailing at date of acquisition; income and expenses (other than depreciation) on the basis of average exchange rates during the year. Exchange gains or losses from such translation practices have been transferred to consolidated income or expense.

(c) **Valuation of inventories**

Inventories have been valued at the lower of cost and net realizable value.

(d) **Capitalization of leases**

All material leases of a capital nature have been recorded as fixed assets acquisitions and long term debt obligations.

(e) **Revenue recogniton—bulk handling terminal contract**

A portion of the revenues accruing under the bulk handling terminal contract between Thunder Bay Terminals Ltd. and Ontairo Hydro is being recognized on a basis that reflects an approximate constant return over each of the fifteen years of the initial term of the contract. (See Note 6).

(f) **Depreciation**

Depreciation on completed property, plant and equipment is provided at rates which are estimated to amortize the original cost of such assets over their useful lives.

(g) **Goodwill**

The goodwill on the balance sheet represents the excess of cost of shares of a subsidiary company over the book amount of net assets acquired, less amounts amortized. The Company's policy is to amortize goodwill over a forty year period.

(h) **Income taxes**

The Company follows the tax allocation method of accounting for income taxes whereby earnings are charged with income taxes relating to reported earnings. Differences between such taxes and taxes currently payable are reflected in deferred income taxes and arise because of differences between the time certain items of revenue and expense are reported in the accounts and the time they are reported for income tax purposes.

Potential tax reductions that may result from the application of losses against future taxable income are not recognized until such future taxable income is earned.

(i) **Earnings per share**

Earnings per common share are calculated using the weighted daily average number of common shares outstanding.

2. Comparative figures

For comparative purposes, the 1978 figures on the statements of retained earnings, earnings and changes in financial position represent the twelve month period ended December 31, 1978. These figures are unaudited because in 1978, due to a change of fiscal year end, the Company's audited financial statements were for the nine month period ended December 31, 1978.

3. Inventories

	1979	1978
Aircraft engines, parts and work-in-process	**$17,028,441**	$15,477,384
Petroleum division products held for resale	**4,049,000**	5,560,400
Other goods held for resale	**—**	1,765,000
Spare parts and supplies	**4,283,406**	3,569,377
	$25,360,847	$26,372,161

4. Insurance claims recoverable

On May 2, 1978 an industrial accident occurred which shut down one of the main operating assets of the coal handling system of Neptune Bulk Terminals Ltd. During 1979 repairs and reconstruction were completed and the system became operational. At December 31, 1979 insurance claims recoverable included $4,638,823 in respect of this accident and subsequent to the year end, the company received $2,760,000 of this amount. At the date of issuing these statements, it is not possible to determine with certainty, whether the balance of $1,878,823 will be fully recovered. However, management believes that the company has valid claims against insurance companies or the designers, engineers, and fabricators of the asset for all uncollected amounts included as insurance claims recoverable in respect of this accident.

5. Fixed assets

	1979			1978
	Cost	**Accumulated Depreciation**	**Net**	Net
Rail and pipeline	**$ 32,117,000**	**$ 8,907,000**	**$ 23,210,000**	$ 23,795,000
Ships and containers	**13,060,000**	**9,650,000**	**3,410,000**	3,484,000
Trucks	**10,203,000**	**6,594,000**	**3,609,000**	4,801,000
Skagway Terminal	**6,978,000**	**3,486,000**	**3,492,000**	3,880,000
Neptune Terminal	**23,230,097**	**6,545,720**	**16,684,377**	15,876,333
Thunder Bay Terminal	**53,019,584**	**2,208,637**	**50,810,947**	—
Land and buildings	**7,457,721**	**2,766,973**	**4,690,748**	4,954,881
Other machinery and equipment	**4,352,471**	**3,519,915**	**832,556**	942,479
Furniture and fixtures	**1,628,594**	**1,036,052**	**592,542**	357,130
	152,046,467	**44,714,297**	**107,332,170**	58,090,823
Thunder Bay Terminal facilities under construction	**11,759,490**	**—**	**11,759,490**	54,482,604
	$163,805,957	**$44,714,297**	**$119,091,660**	**$112,573,427**

The 1978 figures for certain fixed assets have been reclassified to conform to the 1979 asset presentation.

6. Terminal facility—Thunder Bay, Ontario

(a) Thunder Bay Terminals Ltd. has entered into a long term contract with Ontario Hydro for the construction and operation of a bulk terminal handling facility at Thunder Bay, Ontario. The total cost of the terminal is estimated not to exceed $71,500,000. At December 31, 1979 total costs incurred aggregated $64,779,074 of which $53,019,584 relates to completed facilities which became operational on March 1, 1979. The additional $11,759,490 represents terminal facilities under construction.

(b) The cost of the terminal is being financed by the issue of up to $71,500,000, aggregate principal amount, 9⅝% First Mortgage Sinking Fund Bonds, Series A. As at December 31, 1979, the Series A Bonds issued and outstanding aggregated $71,496,000. The terms and conditions of the Series A bond issue are provided for in a Deed of Trust and Mortgage dated as of October 12, 1977 between the company and the trustee for the bondholders.

(c) As at December 31, 1979 unexpended construction funds of $7,596,000 were being held for the purpose of paying construction costs payable.

(d) Under the terms of the agreements with Ontario Hydro, Thunder Bay Terminals Ltd. will receive, over the initial fifteen year term of the contract, contractual amounts of revenue including specific revenue components to cover all payments required for the redemption of all of the Series A bonds and for income taxes. These revenue components become recoverable as and when the bond and income tax payments become due and payable. The use of the cash received in respect of these specific revenue components is restricted to the redemption of the Series A bonds and the payment of income taxes.

(e) The amounts receivable over the fifteen years of the initial term of the contract to cover the redemption of the Series A bonds represent the revenues required to pay for the capital cost of the terminal facility. The net contribution to earnings from these revenues (total amounts receivable less depreciation on the terminal) is recorded in the accounts so as to reflect an approximate constant annual return over each of the fifteen years.

(f) At December 31, 1979, the accrued revenues receivable from Ontario Hydro for the redemption of Series A bonds amount to $3,348,100 of which $1,423,100 is long term and $1,925,000 is current. The long term accrued revenues receivable for the payment of income taxes amount to $1,700,000, all of which relate to deferred income taxes. Because the $1,700,000 to be received is restricted to the payment of income taxes, the liability for the deferred income taxes has been netted against the long term receivable.

7. Other investments

	1979	1978
Mortgages and agreements for sale	**$3,066,386**	$2,634,145
Loans to officers and directors		
Stock purchase plan	**498,750**	268,750
Housing	**140,500**	146,500
Other securities	**685,001**	685,001
Cash surrender value of life insurance policies	**11,909**	—
	$4,402,546	$3,734,396

8. Long term debt

	1979	1978
Term bank loans, secured, 1¼%-1¾% above prime rate	**$13,598,500**	$10,969,500
Debenture, secured, 1½% above prime rate	**3,250,000**	2,250,000
Purchase agreement, secured, non-interest bearing, due 1987	**2,664,248**	2,775,185
Purchase agreement, secured, prime rate	**222,000**	—
Construction costs payable (Note 6)	**1,452,195**	4,708,918
First mortgage bonds, 9⅝% (Note 6)	**69,571,000**	57,000,000
First mortgage bonds, 8½% due 1989	**1,172,000**	1,338,000
First ship mortgage note, 6⅛% due 1981	**—**	120,000
First ship mortgage note, 8½% due 1985	**1,300,000**	1,500,000
Mortgages payable, 11¼%	**—**	9,300
Capitalized equipment leases, 9%-13½%	**1,602,000**	1,870,900
Other capitalized lease obligations, 16¼%	**210,768**	—
	$95,042,711	$82,541,803

The aggregate amount of maturities over the next five years are approximately as follows: 1980—$4,500,000; 1981—$7,200,000; 1982—$6,800,000; 1983—$6,900,000; 1984—$6,900,000.

9. Minority interest

Minority interest is $5,500,000 of 6¾% preferred shares of The White Pass and Yukon Corporation Limited (1978—$5,500,000).

10. Share capital

(a) The authorized share capital of the Company consists of:
(i) 6,000,000 Class A convertible shares without nominal or par value.
(ii) 6,000,000 Class B convertible shares without nominal or par value.
The maximum consideration for the issue of these shares is not to exceed $20,000,000.

The two classes of shares are interconvertible at any time and are similar in all respects, including dividend rights, except that in 1978 dividends on Class B shares were declared out of tax paid undistributed surplus on hand or out of 1971 capital surplus on hand as defined in the Income Tax Act of Canada. Changes in the Income Tax Act preclude the payment of tax deferred dividends on Class B shares after December 31, 1978.

(b) In 1978 the shareholders confirmed a by-law authorizing a stock purchase plan, the purpose of which is to provide loans to employees of the Company for the purchase of Class A shares of the Company. The price at which such shares may be purchased is the market value thereof and employee loans may be provided by the Company in such amounts and on such terms and conditions as the directors of the Company may determine. The by-law expressly provides the aggregate number of shares reserved for issuance under any such plan shall not exceed five percent (5%) of the aggregate number of common shares of the Company of all classes then issued and outstanding.

(c) During the year, 40,000 shares were issued to two officers of the Company under the provisions of the stock purchase plan for an aggregate consideration of $240,000.

(d) At December 31, 1979 there were 3,528,900 (1978—3,488,900) shares issued and outstanding comprised of 2,244,668 (1978—2,189,080) Class A shares and 1,284,232 (1978—1,299,820) Class B shares.

11. Prior years' adjustments

	1979	1978 (Unaudited) (Note 2)
Adjustment of prior years' earnings relating to an accounting policy change of Standard Aero Limited in respect of its inventory, net of related deferred income taxes of $182,600	**$ —**	$223,186
Adjustment to prior years' earnings relating to successful income tax appeals of The White Pass and Yukon Corporation Limited in respect of its 1970 to 1974 fiscal years	**$ —**	354,000
	$ —	$577,186

12. Sales and services by subsidiary company

	1979	1978 (Unaudited) (Note 2)
Neptune Bulk Terminals Ltd.	**$ 9,636,186**	$ 10,223,500
Standard Aero Limited	**46,667,780**	40,018,945
The White Pass and Yukon Corporation Limited		
Transportation revenue	**38,155,000**	39,343,000
Petroleum sales and related revenue	**27,037,000**	30,667,000
Thunder Bay Terminals Ltd.	**14,855,886**	2,957,827
	$136,351,852	$123,210,272

13. Directors' Remuneration

The aggregate remuneration of directors and senior officers of the company are as follows:

	1979				1978 (Unaudited) (Note 2)			
	As Directors		**As Officers**		As Directors		As Officers	
	No.	**Amount**	**No.**	**Amount**	No.	Amount	No.	Amount
Federal Industries Ltd.	**12**	**$38,500**	**7**	**$351,219**	13	$47,550	6	$292,318
The White Pass & Yukon Corporation Limited	**8**	**6,600**	**1**	**34,195**	7	13,000	1	75,000
Thunder Bay Terminals Ltd.	**5**	**200**			3	600		

5 Officers are also Directors of the Company (1978—4 officers).

14. Extraordinary items

	1979	1978 (Unaudited) (Note 2)
Provision for costs and losses related to the discontinuance of subsidiary companies, net of related deferred income taxes of $139,000 in 1978	$ —	$ (441,000)
Write off of goodwill of a subsidiary company	—	(2,596,327)
Reduction of income taxes arising from the utilization of loss carry forwards by subsidiary companies	—	1,510,546
	$ —	($1,526,781)

15. Contractual obligations

(a) The Company and its subsidiary companies have operating lease commitments with varying terms requiring annual rental payments of approximately $625,000.

(b) Commitments for capital expenditures at December 31, 1979 were approximately $2,500,000 of which $1,900,000 is related to the terminal facility under construction.

16. Contingent liabilities

At December 31, 1979, the Company is contingently liable as guarantor of bank loans of a non-affiliated company to a maximum of $1,500,000.

Consolidated Historical Summary

	12 Mos. 31 Dec. 79	12 Mos.* 31 Dec. 78	12 Mos. 31 Mar. 78	12 Mos. 31 Mar. 77	12 Mos. 31 Mar. 76
Income Information ($000)					
Sales & Services	**136,352**	123,210	123,775	103,139	106,729
Gross Earnings from Operations	**19,942**	13,748	9,606	9,946	13,390
Net Earnings Before Extraordinary Items	**1,789**	714	(17)	591	2,161
Extraordinary Items	**—**	(1,527)	(2,498)	891	514
Net Earnings After Extraordinary Items	**1,789**	(813)	(2,515)	1,482	2,675
Depreciation	**6,135**	4,842	4,619	4,699	4,361
Interest on Long Term Debt	**8,393**	3,512	1,568	2,084	1,575
Income Taxes	**1,757**	1,475	1,611	573	2,999
Earnings (Loss) per Common Share	**.51**	(.23)	(.73)	.43	.78
Earnings (Loss) per Share Excluding Extraordinary Items	**.51**	.21	(.01)	.17	.63
Balance Sheet Information ($000)					
Current Assets	**56,490**	50,044	49,039	52,508	41,306
Current Liabilities	**41,880**	39,386	44,618	42,457	29,381
Working Capital	**14,609**	10,658	4,421	10,051	11,925
Fixed Assets—Net	**119,092**	112,574	98,398	60,369	61,506
Other Assets	**16,135**	13,347	7,635	5,840	6,028
Total Assets	**191,716**	175,965	155,072	118,717	108,840
Long Term Debt	**95,043**	82,542	59,396	22,034	24,174
Deferred Income Taxes	**5,525**	6,091	5,744	5,193	5,255
Minority Interest	**5,500**	5,500	5,500	5,500	6,794
Shareholders' Equity	**43,769**	42,446	39,814	45,533	43,236
Other Information					
Gross Margin Ratio%	**14.6**	10.8	7.8	9.6	12.5
Net Earnings as % of Sales	**1.3**	(.7)	(20.3)	1.4	2.5
No. Shares Outstanding (A & B)	**3,528,900**	3,488,900	3,438,900	3,438,900	3,438,900
Dividend per Share					
Class A ($)	**.20**	.20	.35	.40	.40
Class B ($)	**.20**	.20	.35	.34	.34
Price Range of Stock ($)					
High	**8.00**	7.12	8.00	6.00	6.25
Low	**5.50**	4.90	4.90	4.80	3.70
Shareholders' Equity per Share ($)	**12.40**	12.17	11.58	13.24	12.57

**Unaudited*

Aerospace Division

Terminals Division

Transport Division

Harold W. Grant, President
Standard Aero Limited

1. Field repair work on a Bell 205A-1 medium lift helicopter.

Aerospace Division

FIVE-YEAR REVIEW

12 Months	Sales (Millions)	Earnings From Operations* (Millions)
1979 December	46.7	5.7
1978 December	40.0	6.1
1978 March	29.6	3.8
1977 March	24.0	2.7
1976 March	24.5	2.9

**Before taxes, extraordinary items, interest and inter-company charges.*

BUSINESS DESCRIPTION

Standard Aero Limited, Canada's largest independent aircraft engine remanufacturer and parts distributor, operates from Head Office and production facilities in Winnipeg, Manitoba. For over thirty years, the company has maintained an outstanding reputation for reliability and excellence, expanding from a small piston-engine overhaul shop to a sophisticated industrial enterprise with branches across Canada and overseas.

The Division's primary involvement is the repair and remanufacture of engines for helicopters and fixed-wing aircraft. Eighty per cent of all non-military helicopters flying in Canada are serviced from its Winnipeg location, and a variety of workhorse aircraft engines such as the Allison T56, which powers the Hercules Transport, are remanufactured.

In recent years, the Division has pursued market opportunities outside Canada and the resulting business now contributes substantially to total revenues and profits.

A growing proportion of the Division's overall activities is comprised of parts sales and distribution through nine branches located in strategic centres across Canada and in London, England. Each branch maintains an inventory of aviation products geared to the market of the particular region and specializes in rapid delivery of the more than 50,000 items stocked. The parts business, with its higher inventory turns and expansion capability, will become increasingly more important to the future of the Division.

OPERATIONS REVIEW

The Aerospace Division retained its record of an above-average return on assets in 1979, although earnings before interest and taxes remained almost unchanged from 1978. A number of factors accounted for this pause in an otherwise consistent history of increasing profits, and related primarily to a change in mix of Standard Aero's sales. The major element in this

change resulted from a $7,000,000 one-time sale of spare engines to the Canadian Armed Forces concluded at a low margin appropriate to the specific transaction.

Aviation parts and accessories, one of the fastest-growing segments of Standard Aero's business, accounted for 38% of total sales in 1979 compared to 29% in the previous period. The European branch located in London, England contributed outstanding sales and earnings in 1979, confirming earlier expectations that this operation would provide a major expansion market.

During 1979, Standard Aero experienced substantial growth in the repair and overhaul of Pratt and Whitney piston engines. This increase was somewhat offset by a temporary reduction in the overhaul rate of Allison turbine engines resulting from recent extensions in the time-between-overhaul requirements, which reduction will self-correct in 1980.

The Aerospace Division maintains significant inventories as a characteristic of the industry, and comparisons with similar companies in North America are quite favourable. Of the $16.0 million inventory on hand at December 31, 1979, $3.4 million represented work in progress; $9.4 million of parts on hand in Winnipeg; and $3.2 million of branch inventories. In addition the company holds approximately $6 million of inventory owned by the Department of National Defense for support of military overhaul programs.

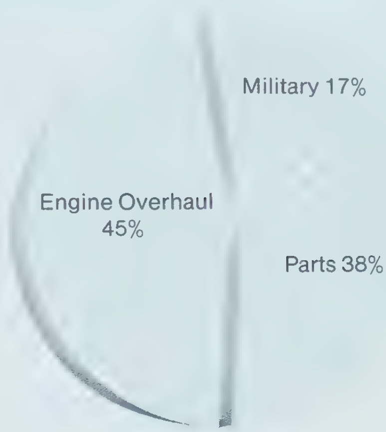
Although Standard Aero purchases much of its parts inventory from the United States, it is able to adjust sale prices for variations in exchange rates, and thus has not suffered from the decline of the Canadian dollar. Furthermore, there are increasing sales outside of Canada, especially in Europe, where non-U.K. business is written in U.S. currency.

OUTLOOK FOR 1980

The market outlook for the aviation industry continues to be bright, and both sales and earnings are forecast to increase in 1980. Natural resource exploration activity, the impact of "offset" work from foreign aerospace companies selling aircraft and parts to Canada, and the impending purchase by the Armed Forces of fighter aircraft will all ensure the continued prominence of Standard Aero. In addition, the company expects to acquire a number of new engine lines during the year and is constructing, at a cost of more than $900,000, facilities to remanufacture the Lycoming T55 turbine helicopter engine.

The Aerospace Division is well placed to take advantage of internal growth opportunities, and has financial resources to engage in an aggressive expansion program.

Sales Distribution for Twelve Months to December 31, 1979



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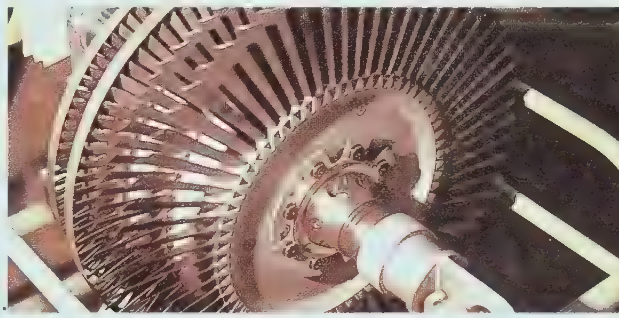

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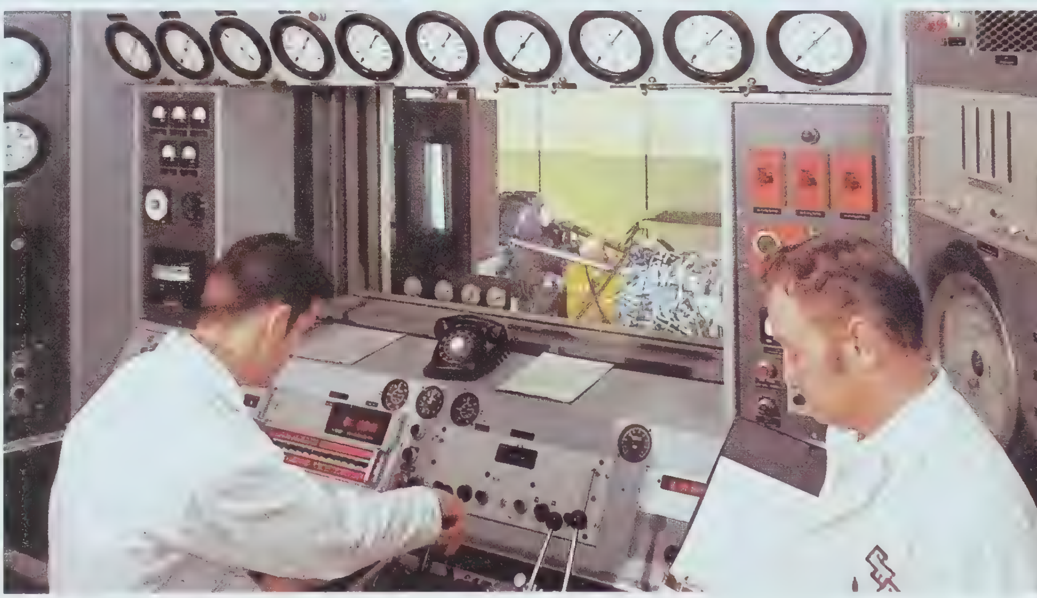

2. A customer looks over a component in the display area of the Winnipeg Branch Sales Office.

3. Turbine blades exposed for inspection.

4. Inside the control room of the turbine engine test stand facility.

Terminals Division

FIVE-YEAR REVIEW

12 Months	Sales (Millions)	Earnings From Operations* (Millions)	Assets (Millions)
1979 December	24.5	9.8	103.8
1978 December	13.2	3.6	86.6
1978 March	9.6	1.8	60.6
1977 March	7.9	1.3	30.4
1976 March	7.7	1.8	23.9

**Before taxes, extraordinary items, interest and inter-company charges.*

BUSINESS DESCRIPTION

The Company owns two bulk commodity handling facilities: Neptune Bulk Terminals Ltd. in Vancouver, British Columbia and Thunder Bay Terminals Ltd. in Thunder Bay, Ontario. Revenues are earned from the handling of bulk products which originate in Western Canada, are carried by rail to the terminals for temporary storage, and are subsequently loaded onto vessels for shipment to export and domestic markets. Neptune also handles inbound commodities which arrive by ship, are stored and then loaded into railcars destined for Western Canadian markets.

Neptune is a multi-product terminal providing transshipment services for coal, potash, phosphate rock, argicultural products and fertilizer. Thunder Bay Terminals began operations on a limited basis in 1978 and moved to full-scale activities in April, 1979. The terminal presently handles coal produced by two mines in Alberta and British Columbia and destined for thermal generating stations owned by Ontario Hydro. Expansion of the facilities is underway to enable Thunder Bay Terminals to receive lignite from a Saskatchewan mine and to transfer it via an extensive under-river conveyor system to the Hydro generating station located on an adjacent island. Significant additional capacity exists to handle large volumes of thermal or metallurgical coal as well as other free-flowing bulk commodities.

A. S. Leach Jr., President, Neptune Bulk Terminals Ltd. and Thunder Bay Terminals Ltd.

OPERATIONS REVIEW

The Division had mixed financial results for the year. Sales and earnings from operations increased significantly at Thunder Bay Terminals but decreased at Neptune.

The adverse financial results at Neptune were caused by several unrelated factors which reduced revenues and increased expenses. A major piece of coal handling equipment, which collapsed in 1978, was not returned to operations until April, 1979. During the reconstruction period, significant additional expenses were incurred to handle coal with an interim system. In May, a ship collided with Neptune's dry bulk berth, rendering it unusable for nearly three months. In early October, another ship struck the Second Narrows Bridge which carries CN Rail traffic to Vancouver's North Shore and created severe traffic interruptions until it was repaired and reopened in March, 1980. Labour problems which occurred at a customer's mine, on one of the railways and on the Vancouver waterfront resulted in a further reduction of tonnage handled at Neptune during the year. Additionally, increased repair and maintenance expenditures were incurred to improve the terminal's product handling capabilities.

A settlement covering a significant percentage of the reconstruction and business costs relating to the 1978 coal system accident was negotiated with insurance underwriters during the year. The company expects to recover the balance of costs through litigation. Business interruption insurance coverage also is in force with respect to revenues lost because of the Second Narrows Bridge collision, and an amount of $0.2 million has been recorded to December 31, 1979 as recoverable.

Neptune Terminals constructed two additional rapeseed oil tanks in 1979, providing a 50% increase in the oil storage capacity. The tanks will handle oil produced at a new Alberta crushing plant and destined for export markets.

Thunder Bay Terminals operated in a very satisfactory manner during the year. Final construction of all handling facilities was completed prior to the opening of the Great Lakes navigation season, and receiving and shipping systems functioned well throughout the year.

Construction of the conveyor system to transfer lignite to the nearby generating station was interrupted in September by an industrial accident, setting scheduled completion back several months. Reconstruction is expected to be complete by year end and coal to be moving over the system by early 1981.

OUTLOOK FOR 1980

Sales and earnings from operations are expected to increase in the Division. Neptune's earnings should return to normal levels as demand for all products handled at the terminal continues to be strong, and handling contracts will be re-negotiated wherever possible to provide improved protection from increased costs. Coal throughput at Thunder Bay Terminals should approximate the 1979 level, and efforts will continue to develop markets with new customers.

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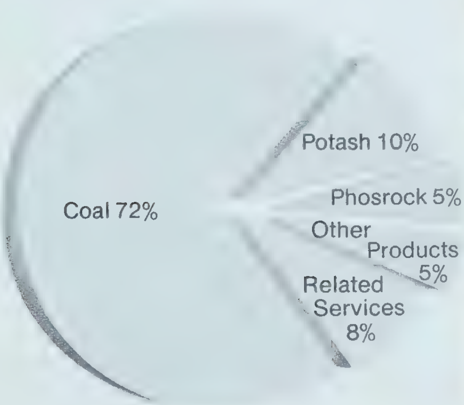
Sales Distribution for Twelve Months to December 31, 1979



1. Loop track, ship-loader and control tower at Thunder Bay Terminals
2. Handling salt at Neptune Bulk Terminals.
3. Stacker-reclaimer handling coal at Neptune Bulk Terminals.
4. Thunder Bay Terminals ship-loading facility.

Transport Division

Thomas H.King, Executive Vice-President and General Manager, The White Pass and Yukon Corporation Limited

FIVE-YEAR REVIEW

12 Months	Sales (Millions) Freight	Petroleum	Total	Earnings From Operations* (Millions)
1979 December	37.2	28.0	65.2	(.8)
1978 December	40.6	29.4	70.0	.4
1978 March	41.7	28.6	70.3	1.8
1977 March	31.4	23.6	55.0	1.9
1976 March	38.6	20.9	59.5	4.2

**Before taxes, extraordinary items, interest and inter-company charges.*

BUSINESS DESCRIPTION

The Transport Division, accounting for nearly 50% of Federal Industries' consolidated sales, is comprised of The White Pass and Yukon Corporation Limited and its operating subsidiaries. Transportation services are provided from bases in British Columbia, Alberta, Yukon Territory and Alaska, with petroleum products sales centred in Whitehorse, Yukon.

A portion of the operation, known as the White Pass Route, is a fully-integrated ocean, rail and highway transportation system linking Vancouver and Whitehorse. The Route operates a tug and barge ocean section out of Vancouver, utilizing one of the largest tugs on the west coast and two 6,000-ton converted ship-barges. Containerized freight is offloaded in Skagway, Alaska for onward delivery to Whitehorse via the 110-mile White Pass railway, which also carries in excess of 40,000 passengers annually past some of the most magnificient scenery in North America. From Whitehorse, goods are delivered throughout the Yukon and to the Northwest Territories and northern British Columbia via the company's extensive truck fleet. This freight service is complemented by the Division's Edmonton-based general freight operation, which serves Alberta and British Columbia and interlines with the White Pass trucking operations at Whitehorse.

A significant portion of the transport revenues is earned in contractual haulage of bulk commodities, primarily lead, zinc and copper concentrates. About 475,000 tons annually are trucked from mine sites to the railhead and by the White Pass and Yukon Railway to the company's terminal facilities at Skagway.

As is apparent from the Five-Year Review, a substantial percentage of the Transport Division's activities is related to petroleum sales and services. The company transports petroleum products on its vessels to Skagway where they are stored for further transmission either by pipeline or rail car to the 8 million-gallon tank farm at Whitehorse. Distribution is accomplished by a fleet of truck tankers serving retail and wholesale customers, including owned and independent service stations. The petroleum division also operates a growing tires, batteries and accessories business with its products being distributed by the company's chain of service stations and to commercial accounts throughout the Yukon. The company enjoys a majority share of the Yukon market for petroleum and related products.

OPERATIONS REVIEW

The process of transition and readjustment which began in 1978 continued through 1979, with new and committed management beginning to achieve concrete results from the concerted efforts of the last 18 months.

Cost reductions in excess of $2 million annually resulted from the closing of Vancouver administrative offices and consolidation of operating headquarters at Whitehorse. Two unprofitable subsidiaries, Pioneer Alaska Express, a trucking division, and Pacific and Arctic Motors, a heavy equipment dealership, were liquidated. Major reductions in direct and support labour were made, particularly in the trucking area, while operating efficiency increased by over 25%, a trend expected to continue into 1980.

New pricing policies designed to realign freight rates and product prices more closely to existing costs were implemented in 1979. Significant increases in general freight tariffs and petroleum prices largely offset the effects of a decline in northbound freight traffic occasioned by new competition and an economic downturn in the Yukon. In

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1. A rugged section along the White Pass and Yukon Railway.

addition, the company and its major customer agreed during the year to a temporary surcharge on transportation charges, resulting in an addition to revenues of approximately $1,100,000.

Strengthened and motivated operating management is succeeding in the improvement of labour relations and communications. For the first time in recent history, all of the company's unions are under contract and work stoppages have been negligible. Unfortunately, the Division continues to suffer from service disruptions caused by strikes and lockouts at customers' sites and on the Vancouver waterfront.

The petroleum division contributed a higher proportion of total sales and profits in 1979 compared to 1978, reflecting a more aggressive marketing posture, increased prices and tight control of operating assets, particularly petroleum inventories.

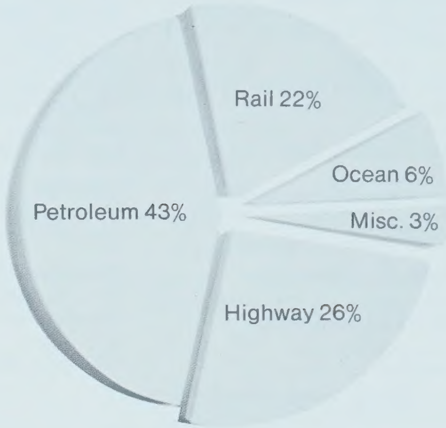
The ocean-rail transportation system experienced a 19% decline in volume from 1978, a critical development for an operation in which most costs are fixed. Contributing to the erosion were the loss of a major customer, increased competition from alternate modes of transport operating on newly upgraded roads, and the general softness of the Yukon Territory's economy. The greatest obstacle facing the Division in dealing effectively and in a timely manner with this situation is the rail link, a regulated and politically sensitive entity.

OUTLOOK FOR 1980

The search for resolution of the White Pass railway's economic future has consumed more management time and effort than any other single issue. This 110-mile link experienced losses in 1979 of over $3,500,000 and without radical action may well continue to drain corporate resources at an unacceptable rate. The concern of your Company has been shared by government and industry leaders in the Yukon, and led during the year to the establishment of an enquiry by the Canadian Transport Commission into the railway. This report, released in February, 1980, recommended government interest-free funding for long term capital requirements. It further stated that users of the rail are legally required to pay a compensatory tariff for services rendered. Accordingly, the Division has reviewed its rate schedules, and has refiled rates with the Commission which are compensatory. The payment of these lawful tariffs on projected tonnages for 1980 will reduce materially the losses currently being experienced. The provision of funding for needed capital assets by government would allow the Division to reduce operating costs and increase efficiency. Management is actively encouraging the Federal Government to give prompt consideration to the report.

Although substantial improvements were accomplished during the year, the outlook for earnings is still not satisfactory, and continued changes will be required in 1980. As stated above, the resolution of the railway's economics is critical to the future success of White Pass, and your Company, with its experienced operating management, will take whatever steps are required to restore growth and profitability.

Sales Distribution for Twelve Months to December 31, 1979



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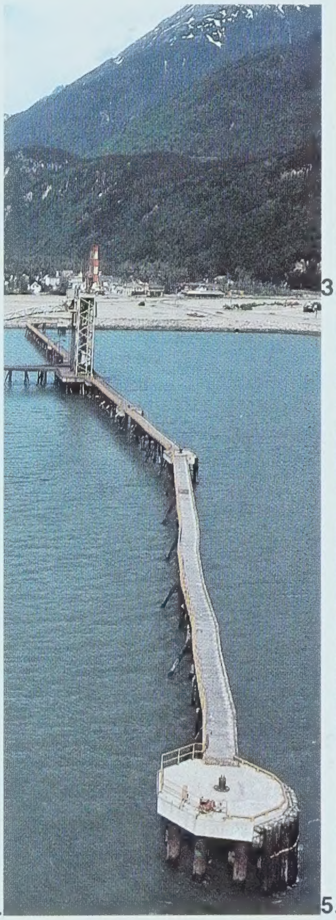

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2. Bulk ore concentrate terminal in Skagway, Alaska.

3. Barging supplies and equipment between Vancouver and Skagway, Alaska.

4. A White Pass truck.

5. A petroleum storage tank farm in Whitehorse.

Directory of Subsidiaries

AEROSPACE DIVISION

STANDARD AERO LIMITED

Winnipeg, Manitoba

H. W. Grant
President

J. A. Burgess
Vice-President, Engineering & Service

R. A. Carter
Vice-President, Sales

M. G. Moncrieff
Vice-President, Operations

S. R. Ewart
Vice-President & Treasurer

TERMINALS DIVISION

NEPTUNE BULK TERMINALS LTD.

North Vancouver, B.C.

A. S. Leach, Jr.
President

N. H. Carr
Vice-President & General Manager

G. A. Klinkow
Director, Customer Services & Shipping

H. M. McLennan
Director, Operations

L. A. W. Seney
Comptroller

THUNDER BAY TERMINALS LTD.

Thunder Bay, Ontario

A.S. Leach, Jr.
President

C. A. Lawrence
Vice-President & General Manager

D.E. Kelso
Operations Superintendent

D. R. Thomas
Maintenance Superintendent

K. W. Traynor
Director of Finance

TRANSPORT DIVISION

THE WHITE PASS AND YUKON CORPORATION LIMITED

Winnipeg, Manitoba

J. F. Fraser
President & Chief Executive Officer

J.S. Pelton
Vice-President, Finance

Vancouver, B.C.

R. A. Hubber-Richard
Chairman of the Board

D. H. Sladden
Senior Manager—Vancouver

North Vancouver, B.C.

S. Kollbaer
Manager, Ocean Division

Whitehorse, Yukon

T. H. King
Executive Vice-President and General Manager

G. W. Goertz
Chief Financial Officer and Treasurer

F. A. Taylor
Manager, Marketing

J. L. Stricharuk
Manager, Petroleum Sales & Service

W. V. McIsaac
Manager, Highway Division

K. M. Steele
Lands Manager

Edmonton, Alberta

W. T. Cowger
Manager, General Freight Division

Skagway, Alaska

W. A. Hisman
Manager, Rail Transportation

W. E. Feero
Manager, Passenger Sales

Company Addresses

BRITISH COLUMBIA

Vancouver—

Neptune Bulk Terminals Ltd.
P.O. Box 86367
North Vancouver, B.C.
V7L 4K6
(604) 985-7461

Standard Aero Limited
4540 Cowley Crescent
Vancouver International Airport,
Vancouver, B.C.
V7B 1B8
(604) 273-8621

The White Pass & Yukon Corporation Limited
P.O. Box 10140 Pacific Centre
Vancouver, B.C. V7Y 1E6
(604) 683-7221

The White Pass & Yukon Corporation Limited
Ocean Division
P.O. Box 86190
North Vancouver, B.C.
V7L 4J9
(604) 984-9561

Chetwynd

White Pass Transportation Limited
P.O. Box 1626
Chetwynd, B.C.
V0C 1J0
(604) 788-3333

Dawson Creek

White Pass Transportation Limited
P.O. Box 358
Dawson Creek, B.C.
V1G 4H1
(604) 782-8101

Fort St. John

White Pass Transportation Limited
10703-100 Avenue
Fort St. John, B.C.
V1J 1Z4
(604) 785-6764

Fort Nelson

White Pass Transportation Limited
P.O. Box 236
Fort Nelson, B.C.
V0C 1R0
(604) 774-2161

Prince George

White Pass Transportation Limited
P.O. Box 250
Prince George, B.C.
V2L 4S1
(604) 564-0858

ALBERTA

Edmonton

White Pass Transportation Limited
16045-114 Avenue
Edmonton, Alberta
T5M 2Z3
(403) 452-5920

Standard Aero Limited
48 Airport Road, Industrial Airport
Edmonton, Alberta
T5G 0W7
(403) 453-3502

Calgary

Standard Aero Limited
Bay No. 1, Bldg. W154
Calgary International Airport
Calgary, Alberta
T2E 5T3
(403) 276-4471

Grande Prairie

White Pass Transportation Limited
8919-111 Street
Grande Prairie, Alberta
T8V 4M5
(403) 532-0895

MANITOBA

Winnipeg

Federal Industries Ltd.
2400-One Lombard Place
Winnipeg, Manitoba
R3B 0X3
(204) 942-8161

Standard Aero Limited
No. 6 Hangar
Winnipeg International Airport
Winnipeg, Manitoba
R2R 0S8
(204) 775-9711

ONTARIO

Thunder Bay

Thunder Bay Terminals Ltd.
P.O. Box 1800, Station "F"
Thunder Bay, Onatrio
P7C 5J7
(807) 623-6921

Toronto

Standard Aero Limited
7171 Torbram Road
Mississauga, Ontario
L4T 3B6
(416) 676-2578

Ottawa

Standard Aero Limited
P.O. Box 821, R.R. #5
Ottawa International Airport
Ottawa, Ontario
K1G 3N3
(613) 737-3985

QUEBEC

Montreal

Standard Aero Limited
2433-46th Avenue
Lachine, Quebec
H4Y 1A5
(514) 636-9215

NEW BRUNSWICK

Fredericton

Standard Aero Limited
P.O. Box 74
Postal Station "A"
Fredericton, New Brunswick
E3B 4Y2
(506) 455-1551

YUKON

Whitehorse

The White Pass & Yukon Corporation Limited
P.O. Box 4070
Whitehorse, Yukon
Y1A 3T1
(403) 667-7611

Watson Lake

White Pass Transportation Limited
P.O. Box 387
Watson Lake, Yukon
Y0A 1C0
(403) 536-7385

UNITED STATES

ALASKA

Skagway

The White Pass & Yukon Corporation Limited
Rail Division
P.O. Box 435
Skagway, Alaska 99840
(907) 983-2214

EUROPE

ENGLAND

Standard Aero Limited
3 Ashford Industrial Estate,
Shield Road
Ashford, Middlesex, England
TW15 1AU
Ashford, Mx. (07842) 46291

Board of Directors

J. F. FRASER
President
Federal Industries Ltd.

*R. G. GRAHAM
President
Inter-City Gas Limited

R. N. HAMBRO
Director
Hambros Bank Limited

R. A. HUBBER-RICHARD
Chairman of the Board
The White Pass and Yukon Corporation Limited

A. S. LEACH
Honorary Chairman of the Board
Federal Industries Ltd.

A. S. LEACH, JR.
Vice-President
Federal Industries Ltd.

*J. B. MacAULAY
Partner, Fraser & Beatty
Barristers and Solicitors

*A. V. MAURO
Executive Vice-President
The Investors Group

*J. D. RILEY
Company Director

J. D. SCOTT
President
Yukon River Industries Ltd.

C. L. SEARLE
Professor of Electrical Engineering
Massachusetts Institute of Technology

S. A. SEARLE
Chairman of the Board
Federal Industries Ltd.

**Member of Audit Committee*

Officers

A. S. LEACH
Honorary Chairman of the Board

S. A. SEARLE
Chairman of the Board

J. F. FRASER
President

A. S. LEACH, JR.
Vice-President

J. S. PELTON
Vice-President, Finance

W. D. DAVIE
Secretary

The Company and Its Subsidiaries

FEDERAL INDUSTRIES LTD.
Ste. 2400-One Lombard Place
Winnipeg, Manitoba R3B 0X3

Neptune Bulk Terminals Ltd.

Standard Aero Limited

Thunder Bay Terminals Ltd.

The White Pass and Yukon Corporation Limited

Transfer Agent and Registrar

The Royal Trust Company
Calgary, Montreal, Toronto, Vancouver and Winnipeg

Federal Industries Ltd., Suite 2400, One Lombard Place, Winnipeg, Manitoba R3B 0X3